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Lucia A Keegan 03/05/2007 09:56:53 AM From DB/Inbox: Lucia A Keegan

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SUBJECT: France: Telecom and Information Technology Update

1. This update covers recent news in the French telecommunications and information technology sectors, including internet and e-commerce.

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Personnel Changes

¶2. (U) France's telecommunications regulator, Autorite de Regulation des Communications Electroniques et des Postes or ARCEP, appointed two new members of the executive board. President Chirac appointed Patrick Raude to replace Michel Feneyrol, whose mandate had expired. Raude worked at the General Directorate of Post and Telecommunications at the Ministry of Industry and Telecommunications, heading the mobile communications office from 1992 to 1995 and the fixed and multimedia communications office from 1995 to 1996. In 1997, he joined the ARCEP (then known as ART) as assistant to the Licenses and Interconnection Department Head. He then rotated to the Secretary of State office and the Prime Minister's office as an advisor on media and cinema before joining the ARCEP Board.

¶3. (U) The President of the Senate appointed Denis Rapone to replace Jacques Douffiagues, whose term expired. Rapone, educated as a lawyer, spent his career in a variety of positions as legal advisor in the French government. Between 2002 and 2004, he was Councilor for Justice at the Prime Minister's Office under Jean-Pierre Raffin. Since 2004 he has served as Director General of France's audiovisual body, the Conseil Superieur de l'audiovisuel (CSA).

¶4. (U) The Ministry of Foreign Affairs DAS-level official in charge of transportation and energy, Nicole Taillefer, is transferring to Edinburgh as Consul General. Former Ministry of Economy, Finance, and Industry (MINEFI) General Directorate for Energy and Raw Materials International Strategy Head Jean Lamy is taking her place. Lamy speaks excellent English.

ARCEP President Says No to CSA-ARCEP Merger

¶5. (U) ARCEP President Paul Champsaur made a speech stating that a merger of CSA and ARCEP "would be an error." His rationale was that the CSA is a regulator of content while ARCEP is a regulator of networks.

Fourth 3G License

¶6. (SBU) On November 23, ARCEP announced that it was considering the provision of a fourth third generation (3G) telecom license. On February 8, an ARCEP contact told us that ARCEP was still considering when to formally begin the application process, but was likely to do so in March. Firms have 120 days from the announcement to submit their applications. If no firm bids or meets the minimum conditions, ARCEP will provide the available spectrum to the three 3G incumbents. Iliad subsidiary Free Telecom has announced in the press that it will apply for the fourth license.

France Telecom Launches Fiber Network

¶7. (U) France Telecom (FT) announced that it would begin offering triple play broadband, internet telephony, and television from March 1 in certain districts in Paris, its suburbs, Lyon, Marseille, Toulouse, Lille, and Poitiers. The service will cost 49 euros (USD 64). FT plans to invest 279 million euros (USD 363 million) over ten years in its fiber network. Its objective is to gain more than a million clients in that period. Free Telecom had earlier announced that it would invest one billion euros (USD 1.3 billion) in the next five years to construct a similar fiber network.

FT's Revenues Increase

¶8. (SBU) France Telecom (FT) reported earlier this month a 7.5 percent gain in sales last year, powered by its mobile phone unit and a strong performance in emerging markets. Revenues rose to 51.7 billion euros (USD 67.3 billion), though net income declined. FT said that gains in emerging market countries and the company's mobile phone unit, where revenue was up 5.0 percent, drove sales growth. FT added that 2006 net earnings would fall in a range of 4.0 to 4.2 billion euros (USD 5.2-5.5 billion), compared to 5.7 billion euros (USD 7.4 billion) in 2005. FT will issue consolidated annual statements for 2006, including precise profit figures, on March 6.

While Jobs Decrease...

¶9. Only 9,400 employees signed up for FT's voluntary redundancy plan. The firm still needs to find an additional 12,600 candidates in order to meet its target of 22,000 departures between 2006 and 2008, according to a report in French daily La Tribune. The report said the company's labor unions do not believe management will reach its target without proposing additional benefits to potential retirees. FT has been finding government administration jobs for employees who maintain civil servant status from the time when the French Government fully owned FT. It has also been providing financial assistance to employees who leave to start up their own companies.

Court Decides FT's Internet Subsidiary Wanadoo Engages in Predatory Pricing

¶10. (U) The European Lower Court on January 30 upheld a 2003 ruling that FT abused its dominant position in the French Internet access market. The Court confirmed the original ruling by the European Commission, which in July 2003, imposed a 10.35 million-euro (USD 13.4 million) fine on Wanadoo, FT's Internet offshoot. Wanadoo has since merged with the Orange brand, which FT used for its international mobile telephony operations. The Court said in its ruling that "predatory pricing, which does not allow either variable or full costs to be recovered, as part of a plan to pre-empt the market for high-speed Internet access, constitutes an abuse of a dominant position." It pointed to Wanadoo's "very high market share during the period at issue," with eight times the number of ADSL subscribers than its number one competitor, and its link-up with France Telecom, the incumbent telecommunications operator in France, which gave it advantages over competitors. FT may appeal the court ruling to the EU upper Court of Justice.

Apple and FT Mobile Brand Orange Offer MacBooks

¶11. (U) Apple and Orange, FT's flagship brand, announced in mid-December a joint offer to rent MacBooks with high speed internet for 60 euros per month. This offer includes Apple technical assistance. The internet connection can be upgraded to eight megabits for five euros. The subscription was available on the Orange website and through 12 commercial agencies in France until January 17.

Neuf Cegetel Offers Technologically Superior Triple Play

¶12. (U) Telecom operator Neuf Cegetel announced the launch of its new Neuf Box, which offers internet telephony, broadband internet services, and television. The new box improves on its previous box in that it functions on wireless technology and is compatible with fiber optic networks that are being installed in major French cities. Neuf Cegetel's director Michel Paulin considers its introduction a considerable competitive advantage since, unlike its competitors, the company will not have to reinstall new boxes when the fiber optic-based high speed broadband arrives. The Neuf Box will be offered free to new subscribers and will be offered to current subscribers at a cost of 49 euros (USD 64).

Neuf Cegetel Unrolls Fiber Network

¶13. (U) Neuf Cegetel subsidiary LDCollectivits won the bid to construct a fiber network in 13 towns on the periphery of Paris, comprising a half million inhabitants. The company will use "le rseau optique passif," or passive optic network, which will be rented to access operators. The contract is in keeping with Neuf Cegetel's development of fiber to the home (FTTH), including the construction of the Iris network and the purchase of Mediafibre, a service provider for the city of Pau.

Free Telecom Second Place in ADSL Market

¶14. (U) Free Telecom attracted 202,000 new ADSL clients in 2006's

fourth quarter, representing 23.3 percent of new customers. FT garnered 44 percent of new ADSL customers, while Neuf Cegetel won 19.6 percent. Free's total ADSL client base is 2.28 million, 19 percent of the total French market. FT accounts for 49.8 percent of the market, and Neuf Cegetel has 18 percent. The traditional fixed line market shrunk by 26 percent during the fourth quarter of 2006, measured year-on-year.

Virtual Mobile Operator Transatel Projected to Grow 50 Percent in 2007

¶15. Virtual mobile operator Transatel, which leased capacity from Bouygues Telecom in France, projected 50 percent growth in its revenues in 2007. Transatel had revenues of 10 million euros (USD 13 million) for 2006 and envisioned 15 million euros (USD 19.5 million) for the end of 2007. Transatel, provider of "low-cost" services, counted 70,000 subscribers in France and the Benelux countries. In 2007, the firm plans to expand into Germany, the UK, Switzerland, and Austria.

Alcatel-Lucent Cuts Jobs

¶16. The French telecommunications equipment maker Alcatel-Lucent announced disappointing results for 2006, with a fourth quarter USD 800 million profit loss and declining revenues. The company broke even on its operations during the quarter, but the company wrote off USD 750 million in restructuring costs resulting from the firms' December 1 merger. In an effort to improve its financial performance, the company has announced that it will slash 12,500 jobs, or 16 percent of its workforce. This cut is 3,500 employees more than the 9,000 workers it had originally planned to shed after the merger. The combined company had about 80,000 employees at the end of 2006. Alcatel-Lucent plans to cut its French workforce by 12 percent, impacting 1,468 positions by the end of 2008. The firm announced that it will make these cuts through early retirement and support for the creation of small business by former employees. Alcatel-Lucent's French unions called a strike on February 15 to protest the workforce reductions.

Internet Advertising Expanding

¶17. (U) Internet advertising in France generated 48 percent more revenue in 2006, totaling 1.7 billion euros in revenue (USD 2.2 billion), than a year earlier, according to TNNS Media Intelligence. This advertising is aimed at France's 30 million Internet subscribers, 20 million which have broadband connections in their home.

My Space Growing Quickly in Europe

¶18. (SBU) My Space, an e-mail forum for blogs, chat groups, music videos, forums, games, and events, recently told us that it is expanding rapidly in France and the UK. The firm plans soon to expand into Germany, Spain, the Netherlands, Sweden, and Italy. My Space already has a Paris-based office, and is in the process of hiring a Safety and Security Manager that will liaise with French law enforcement agencies. Pedophiles in the U.S. have preyed on young My Space users, according to its executives. While it has yet to experience such cases in Europe, My Space says it is committing significant resources to ensure that its site remains safe. One-third of My Space employees focus on child safety. My Space has established a toll-free number and e-mail site for law enforcement officials that need information on suspected criminals. It also plans courses for schools on how to use My Space safely and for law enforcements officials on how they can work with the firm.

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